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IDAHO PUBLIC
UTILITIES COMMISSION

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ATTORNEYS FOR AVISTA CORPORATION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

POTLATCH CORPORATION,
Complainant

v.

AVISTA UTILITIES
Respondent

CASE NO. AVU-E-02-08

AVISTA CORPORATION'S
ANSWER, AFFIRMATIVE
DEFENSE, REQUEST FOR
DEFERRAL OF HEARING AND
NOTICE OF APPEARANCES

ANSWER

COMES NOW, Avista Corporation ("Avista") and denies the complaint that Avista Utilities has failed and refused, and continues to fail and refuse, to purchase the cogeneration output of Potlatch's Qualifying Facilities in the manner required by law. Furthermore, Avista answers the separately enumerated sections of Potlatch's Complaint

as follows:

I.

With respect to Paragraph No. 1 of Potlatch's Complaint (pertaining to the Idaho Public Utilities Commission having jurisdiction over the matter), Avista admits the same.

II.

With respect to Paragraph No. 2 of Potlatch's Complaint (regarding the business operations of Potlatch), Avista admits the same.

III.

With Respect to Paragraph No. 3 of Potlatch's Complaint, Avista admits that Avista Utilities is an operating division of Avista, that Avista is owned by investors, and that Avista provides electricity and natural gas service to customers, the majority of whom are located in northern Idaho and eastern Washington. Avista also admits that it provides electricity to customers in and around the area of Lewiston, Idaho, the location of Potlatch's Lewiston Facility, but denies that such area is certificated.

IV.

With respect to Paragraph No. 4 of Potlatch's Complaint, Avista admits that Potlatch owns and operates four generators at its Lewiston Facility that, under the current configuration, are operated and metered as one project. Avista is without knowledge or information sufficient to form a belief as to whether the generating facility or facilities currently have or will have Qualifying Facility status pursuant to the rules and regulations of the Federal Energy Regulatory Commission, or whether the generating facilities currently are able or will be able to generate 95 megawatts of electric power, and

therefore Avista denies the same. Avista admits the remaining allegations of Paragraph No. 4 of Potlatch's Complaint.

V.

With respect to Paragraph No. 5 of Potlatch's Complaint, Avista admits that it received from Potlatch a letter dated October 2, 2001, requesting a quote "for the purchase of power generated by Potlatch after the expiration of the 1991 Agreement." Avista further admits that Avista and Potlatch representatives met subsequent to the date of the letter. Avista denies the remaining allegations contained in Paragraph No. 5 of Potlatch's Complaint.

VI.

With respect to Paragraph No. 6 of Potlatch's Complaint, Avista denies the same.

VII.

The allegations contained in Paragraph No. 7 of Potlatch's Complaint are legal contentions and characterizations to which no response is required. To the extent a response is required, Avista denies the allegations contained in paragraph No. 7 of Potlatch's Complaint.

VIII.

Avista denies all allegations not expressly admitted herein.

AFFIRMATIVE DEFENSE

I.

On or about October 2, 2001, Mr. Howard Ray of Potlatch Corporation dispatched a letter to Mr. Douglas Young of Avista Corporation. Said letter represented that Potlatch was in the process of determining the most beneficial way to sell the output

from its generation facilities at the expiration of the 1991 contract. Said letter identified a sale of Potlatch's generation to Avista by avoided cost as being one option for the sale of power. Potlatch requested a meeting on October 12, 2001 in said letter.

II.

On October 10, 2001, Potlatch issued a request for proposals for the wholesale purchase of electric power generated by Potlatch.

III.

Representatives of Potlatch, Avista Corporation and the IPUC Staff met on October 12, 2001. At said meeting, Potlatch representatives stated that they would not know what kind of product they would be offering until they knew more about variances in markets and prices.

IV.

Representatives of Potlatch and Avista conducted additional meetings on November 14, 2001 and December 12, 2001. At no time during the November and December meetings or subsequent to the meetings did Potlatch unconditionally offer a quantity of power that it desired to supply, the period of time that it desired to supply such power or the non-price related features of a contract that it desired.

V.

Potlatch has not been ready, willing and able to enter into a contract for the sale of power that sets forth specific obligations of the parties and that conforms with the requirements of the Commission.

REQUEST FOR DEFERRAL OF HEARING

Avista Corporation respectfully requests the Commission to defer any action on the Complaint for a period of ninety (90) days, and encourage the parties to engage in further settlement discussions, with Staff's active participation. In support of its request, Avista submits that there have been no substantive communications for nearly a year respecting a possible sale of power by Potlatch to Avista. Furthermore, wholesale market conditions have changed subsequent to the last discussion, which may improve the opportunity for Avista and Potlatch to reach agreement on a sale of power from the Lewiston facility. If the Commission defers action upon the Complaint, Avista will endeavor to initiate settlement discussions with Potlatch for the purpose of attempting to resolve disputed matters without the necessity of hearing. Avista has requested the participation of the Commission Staff to help facilitate settlement discussions, and Commission Staff has agreed to participate.

NOTICE OF APPEARANCES

Avista Corporation request that all pleadings and communications in this matter be served upon the following:

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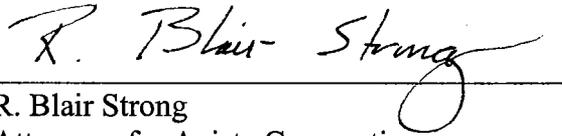
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Pursuant to Rule 41 (IDAPA 31.01.01.041), Avista requests that the Commission,
authorize service upon the three representatives of Avista, listed above.

DATED this 23 day of January 2003.

Paine, Hamblen, Coffin, Brooke & Miller LLP

A handwritten signature in cursive script that reads "R. Blair Strong". The signature is written in black ink and is positioned above a horizontal line.

R. Blair Strong
Attorneys for Avista Corporation

CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that on the 23^d day of January 2003, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Ms. Jean Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83720-0074

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Givens Pursley LLP
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